

## **User Agency Review of AASIS Vendor Report**

The purpose of the AASIS Vendor Report is to provide all of the Vendor Payments processed for your review and correction, if necessary.

### **Known Situations**

1. Agencies chose tax code P1 instead of P0. This causes the posting program to calculate an inappropriate withholding tax and reduces the taxable amount of the payment to the vendor and thus under reports the 1099. Please review your use of P1 and correct the payments on line.
2. One-time vendors were used for taxable payments. These need to be corrected using the attached instructions.
3. Board Members present a special situation and should be corrected per the attached instructions.
4. Benefit Vendors should also be reviewed and corrected per the attached instructions.
5. Payments were allowed to use the default code of the vendor when the payment was non-taxable or should have used a different tax code. The main issue is Non-Employee Compensation (07) and Rent (01). A significant number of complaints resulted because of the FICA taxability that exists for Non-Employee Compensation but not for Rent.
6. Payments were not split properly between taxable and non-taxable amounts. Although the IRS allows us to report the gross amount, we should separate and properly classify the payment when the taxable amount is known.
7. The exception to rule that Corporations do not receive 1099's is Medical Payments. Typically, the Corporation is set up to be non-taxable and therefore, the taxable amount for the default will be zero. Please review your Corporate Entities for Medical Payments. These will be included in the One-time Vendor Correction Process. Do not correct on line.
8. The Claims Commission is using One-Time Vendors to pay claims that are 1099 reportable from appropriations and funds assigned to the agency. It is the responsibility of the agency to review these payments and submit spreadsheets for those claims that are 1099 reportable.

### **Non-Taxable Vendors with Taxable Payments**

The report will show non-taxable vendors (00) with taxable payment amounts. This is the result of the vendor master data correction procedure from the Calendar Year 2003 1099 process. We received notification from the vendor stating they were not taxable. There were such a large number of payments that

it was impractical to change the individual taxable payment amounts to zero. Examples were corporate entities, foster care providers, foster grandparent providers, employees converted as vendors for travel, non profit entities, governmental entities, quasi governmental entities, board members that received only reimbursable expenses, errors in charging rent to the individual and not the corporation and several other special IRS classifications that excluded the vendor from the 1099.

Office of State Purchasing has continued this procedure based on agency/vendor input. In some cases, agencies had conflicting vendor tax status information. Examples would be the Rent and Medical Payments issues above.

Please review these non-taxable vendors. If you feel that the vendor's tax classification is incorrect, please Email the AASIS Vendor Information and a statement as to why the classification should be changed to:

[ACCT1099AGENCYCHANGE@DFA.STATE.AR.US](mailto:ACCT1099AGENCYCHANGE@DFA.STATE.AR.US)

### **Tax Determination**

The Internal Revenue Service has the regulations concerning 1099's on their website:

<http://www.irs.gov/pub/irs-pdf/i1099msc.pdf>

Please consult this website if you have questions as to whether or not a vendor/vendor payment is taxable and should be reported as a 1099.

If your agency has an attorney or tax specialist, he or she should be consulted when there are questions.